

1 ☐ EXPEDITE
2 ☐ Hearing is Set

3 Date:

4 Time:

5 Judge Richard A. Strophy

6
7
8 STATE OF WASHINGTON
9 THURSTON COUNTY SUPERIOR COURT

10 MIKE KREIDLER,
11 INSURANCE COMMISSIONER

12 Petitioner,

13 v.

14 WASHINGTON CASUALTY COMPANY,

15 Respondent.

NO. 03-2-00401-1

CERTIFICATE OF SERVICE
OF
SIXTH REPORT OF RECEIVER

16 This will hereby certify that on the 27th day of March, 2006, I mailed true and correct
17 copies of the Receiver's Sixth Report via the United States Mail, first-class postage prepaid, in
18 sealed envelopes, at Olympia, Washington, to the following interested parties:

19 Robert J. Walerius

20 MILLER NASH

4400 Two Union Square

601 Union Street

Seattle, WA 98101-2352

21 *Former Counsel to Washington Casualty Co.*

22 John B. Woodall, Deputy Receiver

Washington Casualty Co. *In Rehabilitation*

6520 226th Place SE, Suite 200

Issaquah, WA 98027

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25 ////

1 1. *Order of Rehabilitation.* On March 6, 2003, this Court entered an order of
2 Rehabilitation and Appointment of Receiver placing WCC into rehabilitation
3 proceedings pursuant to Chapters 48.31 and 48.99 RCW, and appointing the Statutory
4 Receiver, Receiver, and Deputy Receiver.

5 2. *Accounting to the Court.* RCW 48.31.040(5) and the Order of Rehabilitation
6 require that the Receiver make accountings to the Court not less than semiannually.
7 The semiannual reporting schedule requires a report to be filed in September and March
8 of each year that the receivership is in existence.

9 3. *Financial Report.* The December 31, 2005, Annual Statement of WCC,
10 which was filed with the Office of the Insurance Commissioner, may be viewed at
11 www.insurance.wa.gov. The financial figures are derived from calculations made in
12 accordance with Statutory Accounting Principles ("SAP"). The Insurance
13 Commissioner has adopted regulations promulgating SAP as the accounting treatment
14 to be used by insurance companies transacting business in Washington. RCW
15 48.05.073; WAC 284.07.050.

16 WCC's capital and surplus deficit as of March 31, 2003 was (\$8,850,000). The
17 Company's capital and surplus deficit was (\$8,752,188) as of December 31, 2003. The
18 Company's capital and surplus deficit was (\$8,640,368) as of June 30, 2004. The
19 Company's capital and surplus deficit was (\$8,030,262) as of December 31, 2004. The
20 Company's capital and surplus deficit had been lowered to (\$7,364,663) as of June 30,
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1 insuring WCC, or the renewal premium quotations were so expensive WCC's
2 policyholders could no longer afford their portion of a renewal premium. WCC entered
3 into an alliance with One Beacon Professional Partners (OBPP). The alliance resulted
4 in WCC writing an account's primary coverage while OBPP wrote the excess policy
5 insuring the account's higher limits.
6

7 Simultaneous with the inauguration of a working agreement with OBPP, WCC
8 commenced a search for reinsurance. On December 1, 2004, a reinsurance policy was
9 issued to WCC covering losses up to \$1 million. Negotiations continued in an attempt
10 to obtain reinsurance covering losses of up to \$5 million for those accounts desiring
11 higher limits. Those efforts were successful and treaties for the \$5.0 million were in
12 force on October 1, 2005.
13

14 Reinsurance companies are very hesitant to reinsure a primary company whose
15 financial condition is deteriorating. It is felt by the staff at WCC the reinsurers who
16 quoted to write its account have increasing confidence in WCC's ability to accomplish
17 a successful rehabilitation.

18 10. *Continued Prospects for Rehabilitation.* In 2005, the efforts to move the
19 Company toward rehabilitation have met with significant success. The 100% renewal
20 retention rate for the subsequent days since January 2005 and the addition of new
21 accounts point to the belief in the marketplace that WCC is well on the road to
22 recovery. The expense ratio has remained below budget. The claims count continues
23 to drop. The Company's consulting actuary has confirmed that the Company's claims
24

1 2005. The Company's capital and surplus deficit was lowered to (\$2,836,000) as of
2 December 31, 2005.

3 Net income for 2005 was \$4.91 million compared with last year's net loss of
4 (\$1,541,344).
5

6 Liabilities had decreased by \$9.628 million as of December 31, 2005.
7 Cash and invested assets decreased \$5.64 million during that same period as a result of
8 the paying of claims' obligations and lowered investment returns. Admitted assets
9 remain sufficient, cash flow remains strong, and all obligations are being paid when
10 due.

11 4. *Retention of Policyholders.* Since the implementation of the receivership of
12 Washington Casualty Company ("WCC") on March 6, 2003, significant
13 accomplishments have been made to stabilize and expand the policyholder base of
14 WCC. For the initial period of March 6, 2003, through the end of the second quarter of
15 2003, the renewal retention ratio was 56%. This was the period of greatest uncertainty,
16 as the necessity to place WCC into receivership created concern, on the part of
17 insureds, and predatory practices surfaced within the Medical Professional Liability
18 market in Washington. For the third quarter of 2003, renewal retention improved to
19 65%. With the initial periods of uncertainty past, WCC was able to realize an
20 exceedingly high retention ratio for the succeeding calendar quarters. In 2004, the
21 Company's renewal retention ratio was 95.6%. In 2005, the Company's renewal
22 retention rate was 97.9%.
23
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1 The Company's 2005 Business Plan pointed to development of new accounts,
2 and WCC was successful in attracting four new accounts during 2005.

3 WCC has targeted five new accounts as its sales objective in 2006, including the
4 retention of all currently insured accounts. WCC will continue efforts to encourage the
5 return to it of previously written accounts.
6

7 5. *Operating Expenses.* WCC has continued to monitor and reduce operating
8 expenses. In 2005, operating expenses were \$1.79 million, which is a decrease of
9 \$507,000 from the same period in 2004. There are 14 employees at WCC.

10 6. *Administration of Claims.*

- 11 • In March 2003, Washington Casualty Company had 432 open claims.
- 12 • As of August 1, 2003, it had 367 open claims.
- 13 • As of December 29, 2003, it had 343 open claims.
- 14 • As of March 11, 2004, it had 309 open claims.
- 15 • As of August 31, 2004, it had 248 open claims.
- 16 • As of December 31, 2004, it had 205 open claims.
- 17 • As of June 30, 2005, it had 169 open claims.
- 18 • As of December 31, 2005, it had 153 open claims.

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20
21 The year 2005 was marked with the settlement of a number of significant open
22 claims.

23 Efforts to close the Company's open claims, particularly those older than 24-
24 months, are continuing.

1 7. *Additional Revenues.* In order to secure additional revenues, WCC became
2 the servicing carrier for the Nurse Midwives Joint Underwriting Association in 2004.
3 The Association was created pursuant to Chapter 48.87 RCW. A servicing carrier
4 performs policy issue and endorsements to medical malpractice policies written by the
5 Association, the handling of claims arising under Association policies, and the
6 accounting work connected with the Association's financial transactions. WCC earned
7 \$169,318 in 2005 for serving as the Nurse Midwives Joint Underwriting Association
8 servicing carrier.
9

10 8. *Risk Management Activities.* Washington Casualty Company maintains a
11 Risk Management Department. That department is responsible for assisting WCC's
12 policyholders through on-site visits to identify any medical procedures that need to be
13 revised in order to improve patient safety. The Risk Management Department also
14 provides answers to clients' telephonic and electronic questions pertaining to patient
15 safety. It, as well, provides educational programs for WCC policyholders on medical
16 techniques and updates on standards. In 2005, the Risk Management Department made
17 103 on-site visits to WCC policyholders.
18

19 The Risk Management Department is widely recognized for its technical
20 competence and is an integral part of the reasons WCC insureds transact business with
21 the Company.
22

23 9. *Reinsurance.* Upon the ordering of WCC into Rehabilitation on March 6,
24 2003, the Company's reinsurance carriers either nonrenewed their reinsurance policies

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1 loss and reserves are at appropriate levels. The Company as well has secured
2 reinsurance to cover significant losses.

3 DATED this 24th day of March 2006.

4
5 John B. Woodall
6 JOHN WOODALL,
7 Special Deputy Insurance Commissioner, and
8 Deputy Receiver for Washington Casualty Company

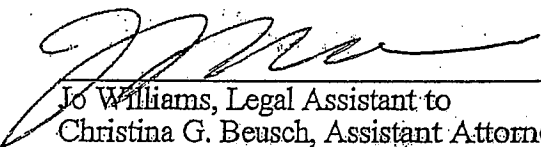
9 Presented by:
10 ROB MCKENNA
11 Attorney General

12 Christina Beusch
13 CHRISTINA G. BEUSCH, WSBA# 18226
14 Assistant Attorney General
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1 James Odiorne, Deputy Commissioner
2 Office of the Insurance Commissioner
3 P.O. Box 40255
4 Olympia, WA 98504-0255

5 Victoria L. Vreeland, WSBA 8046
6 Gordon Thomas Honeywell
7 600 University Street, Suite 2100
8 Seattle, WA 98101-4185

9 DATED this 27th day of March, 2006.

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11 Jo Williams, Legal Assistant to
12 Christina G. Beusch, Assistant Attorney General
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